

**Washington State Auditor's Office**  
**Accountability Audit Report**

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**Educational Service District No. 123**  
**Franklin County**

Report Date  
**July 30, 2013**

**Report No. 1010235**

Issue Date  
**August 12, 2013**



WASHINGTON  
**TROY KELLEY**  
STATE AUDITOR



**Washington State Auditor  
Troy Kelley**

August 12, 2013

Board of Directors  
Educational Service District No. 123  
Pasco, Washington

***Report on Accountability***

We appreciate the opportunity to work in cooperation with your District to promote accountability, integrity and openness in government. The State Auditor's Office takes seriously our role to advocate for government accountability and transparency and to promote positive change.

Please find attached our report on Educational Service District No. 123's accountability and compliance with state laws and regulations and its own policies and procedures. Thank you for working with us to ensure the efficient and effective use of public resources.

Sincerely,

**TROY KELLEY**  
STATE AUDITOR

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# **Audit Summary**

## **Educational Service District No. 123 Franklin County July 30, 2013**

### ***ABOUT THE AUDIT***

This report contains the results of our independent accountability audit of Educational Service District No. 123 from September 1, 2010 through August 31, 2012.

We evaluated internal controls and performed audit procedures on the activities of the District. We also determined whether the District complied with state laws and regulations and its own policies and procedures.

In keeping with general auditing practices, we do not examine every transaction, activity or area. Instead, the areas examined were those representing the highest risk of noncompliance, misappropriation or misuse. The following areas were examined during this audit period:

- General disbursements
- Payroll/personnel
- Financial condition
- Foundations and associations
- Credit cards and accounts

### ***RESULTS***

In most areas, the District complied with state laws and regulations and its own policies and procedures.

However, we noted certain matters that we communicated to District management. We appreciate the District's commitment to resolving those matters.

## **Related Reports**

**Educational Service District No. 123  
Franklin County  
July 30, 2013**

### ***FINANCIAL***

Our opinion on the District's financial statements and compliance with federal grant program requirements is provided in a separate report, which includes the District's financial statements.

### ***FEDERAL GRANT PROGRAMS***

We evaluated internal controls and tested compliance with the federal program requirements, as applicable, for the District's major federal programs, which are listed in the Federal Summary section of the financial statement and single audit report.

# **Description of the District**

## **Educational Service District No. 123 Franklin County July 30, 2013**

### ***ABOUT THE DISTRICT***

Educational Service District No. 123 is one of nine regional service agencies created by the state Legislature to provide services to school districts. Oversight responsibility for the District's operation is vested with a nine-member Board of Directors. Board Members are elected by the school district boards within the District's service area of Benton, Franklin, Walla Walla, Garfield, Asotin and Columbia counties. District management is appointed by and accountable to the Board of Directors.

The District administers two self-insurance pools as part of the service provided to local school districts. For fiscal years 2011 and 2012, the District had 110 employees and general fund expenditures of approximately \$9.7 million and \$8.8 million, respectively. The District derives most of its revenue from federal and state grants as well as cooperative program fees.

### ***ELECTED OFFICIALS***

These officials served during the audit period:

Board of Directors:

Sheryl Byerley  
Stephen Maciboba  
Brad Gringerich  
Dale Newby (retired October 2012)  
Bruce Wildfang (began February 2013)  
Anna Rea  
Paul Whitemarsh  
Beverly Abersfeller  
Steve Landon  
Lee Ann Dudney

### ***APPOINTED OFFICIALS***

Superintendent  
Director of Finance and Operations

Assistant Superintendent of Teaching  
and Learning

Executive Director of Instructional  
Support

Bruce Hawkins  
Russ Whiteaker (retired April 2011)  
Michelle Dearlove (appointed May 2011)

Bob Smart (retired June 2011)  
JoAnn Henderson (appointed October 2011)

Mark Muxen

## ***DISTRICT CONTACT INFORMATION***

Address: Educational Service District No. 123  
3918 W. Court Street  
Pasco, WA 99301

Phone: (509) 547-8441

Website: [www.esd123.org](http://www.esd123.org)

## ***AUDIT HISTORY***

We audit the District every two years. We reported an accountability finding for our audit of fiscal years 2009 and 2010 regarding the District's authority for activities.

# **Status of Prior Audit Findings**

## **Educational Service District No. 123 Franklin County July 30, 2013**

The status of findings contained in the prior years' audit reports of the Educational Service District No. 123 is provided below:

**1. Educational Service District No. 123 operated outside its authority when it created a nonprofit foundation.**

Report No. 1005989, dated June 13, 2011

### **Background**

State law grants limited authority to educational service districts. The educational service districts' (ESDs) primary functions include offering cooperative and informational services to local districts and perform functions for districts at a regional level when it is more effective or cheaper than at the district level, help the state educational agencies in the legal performance of their duties and ensure students have equal educational opportunities. In addition, ESDs were established to assist the Office of Superintendent of Public Instruction.

The District serves 23 public schools in seven counties in southeastern Washington.

In 2009 the District created a nonprofit foundation with the stated purpose of providing kindergarten through 12th grade student grants, educational resources outside of school and scholarships. The foundation's Board of Directors consisted of the District's Superintendent, Assistant Superintendent, Executive Director of Instructional Services and Executive Director of Finance and Operations. District staff and money were used to pay foundation-related filing, processing and renewal fees. District staff created a website for the foundation.

State law does not grant ESDs authority to create or operate nonprofit foundations.

### **Status**

We reviewed the activities the District is engaged in. We noted the District did not create any more foundations since our prior audit. However, the prior audit finding is only partially resolved and we have reissued our recommendation in our fiscal year 2012 audit. The District is providing fiscal management services to the nonprofit foundation, which is outside its authority per state law.





## **ABOUT THE STATE AUDITOR'S OFFICE**

The State Auditor's Office is established in the state's Constitution and is part of the executive branch of state government. The State Auditor is elected by the citizens of Washington and serves four-year terms.

Our mission is to work with our audit clients and citizens as an advocate for government accountability. As an elected agency, the State Auditor's Office has the independence necessary to objectively perform audits and investigations. Our audits are designed to comply with professional standards as well as to satisfy the requirements of federal, state, and local laws.

The State Auditor's Office employees are located around the state to deliver services effectively and efficiently.

Our audits look at financial information and compliance with state, federal and local laws on the part of all local governments, including schools, and all state agencies, including institutions of higher education. In addition, we conduct performance audits of state agencies and local governments and fraud, whistleblower and citizen hotline investigations.

The results of our work are widely distributed through a variety of reports, which are available on our Web site and through our free, electronic subscription service.

We take our role as partners in accountability seriously. We provide training and technical assistance to governments and have an extensive quality assurance program.

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**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of State and Local Audit**  
**Deputy Director of Quality Assurance**  
**Deputy Director of Communications**  
**Local Government Liaison**  
**Public Records Officer**  
**Main number**  
**Toll-free Citizen Hotline**

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